

Financing

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- Capital Structure
- Changes in Financing
- Sources of Finance
 - Loans and Bonds
 - Perpetual Capital Securities
 - Bank Balances and Short-term Deposits
- Maturity Profile and Refinancing
- Currency Profile
- Finance Charges
- Interest Cover and Gearing Ratios
- Covenants and Credit Triggers
- Capital Management
- Key Credit Ratios

- Attributable Net Debt
- Debt in Jointly Controlled and Associated Companies
- Attributable Profit Correlation

Capital Structure

The Group aims to maintain a capital structure that is appropriate for long-term credit ratings of A3 to A1 on Moody's scale, A- to A+ on Standard & Poor's scale, and A- to A+ on Fitch's scale. Actual credit ratings may depart from these levels from time to time due to economic circumstances. At 31st December 2009 the Company's long-term credit ratings were A3 from Moody's, A- from Standard & Poor's, and A from Fitch.

Changes in Financing

Analysis of Changes in Financing During the Year

Audited Financial Information	2009	2008
	HK\$M	HK\$M
Loans, bonds and perpetual capital securities		
At 1st January	35,272	27,038
Loans drawn and refinancing	8,263	12,161
Repayment of loans and bonds	(9,077)	(3,914)
Other non-cash movements	44	(13)
At 31st December	34,502	35,272

During the year, the Group raised HK\$8,940 million. This included:

- the issue of three series of four-year medium-term notes totalling HK\$500 million
- the issue of a ten-year US dollar medium-term note of US\$500 million
- a two-year bilateral combined term and revolving credit loan facility of RMB300 million
- a five-year bilateral term loan facility of RMB2,000 million
- a two-year bilateral revolving credit facility of US\$38 million
- a four-year bilateral term loan facility of HK\$500 million
- two five-year bilateral term loan facilities totalling HK\$1,000 million

Significant debt repayments during the year included the repayment of a HK\$500 million bilateral term loan facility and a HK\$600 million five-year medium-term note.

Sources of Finance

At 31st December 2009, committed loan facilities and debt securities amounted to HK\$46,151 million, of which HK\$12,521 million (27%) remained undrawn. In addition, the Group had undrawn uncommitted facilities totalling HK\$4,429 million. Sources of funds at 31st December 2009 comprised:

Audited Financial Information				
	Available HK\$M	Drawn HK\$M	Undrawn expiring within one year HK\$M	Undrawn expiring beyond one year HK\$M
Committed facilities				
Loans and bonds				
Fixed/floating rate bonds	16,729	16,729	–	–
Bank loans, overdrafts and other loans	27,096	14,575	2,455	10,066
Perpetual capital securities	2,326	2,326	–	–
Total committed facilities	46,151	33,630	2,455	10,066
Uncommitted facilities				
Bank loans, overdrafts and other loans	5,398	969	4,295	134
Total	51,549	34,599	6,750	10,200

Loans and Bonds

For accounting purposes, the loans and bonds are classified as follows:

Audited Financial Information						
	2009			2008		
	Drawn, before unamortised loan fees HK\$M	Unamortised loan fees HK\$M	Carrying value HK\$M	Drawn, before unamortised loan fees HK\$M	Unamortised loan fees HK\$M	Carrying value HK\$M
Bank overdrafts and short-term loans						
– unsecured	1,083	–	1,083	2,083	–	2,083
Long-term loans and bonds at amortised cost	31,190	(97)	31,093	30,944	(80)	30,864
Less: amount due within one year included under current liabilities	(1,469)	–	(1,469)	(1,668)	–	(1,668)
	29,721	(97)	29,624	29,276	(80)	29,196

Short-term loans at 31st December 2008 and 2009 include amounts of HK\$113.6 million borrowed under an entrusted loan arrangement. On 15th September 2008, a subsidiary of the Company, Beijing Sanlitun South Property Management Co. Ltd. entered into entrusted loan agreements with Akzo Nobel Swire Paints (Guangzhou) Limited (formerly known as ICI Swire Paints (China) Limited) and Akzo Nobel Swire Paints (Shanghai) Limited, jointly controlled companies of the Company, and a bank. Akzo Nobel Swire Paints (Guangzhou) Limited and Akzo Nobel Swire Paints (Shanghai) Limited provided principal amounts of RMB40 million and RMB60 million respectively as loans to Beijing Sanlitun South Property Management Co. Ltd.

Perpetual Capital Securities

Audited Financial Information

Perpetual capital securities, amounting to US\$300 million and bearing cumulative interest at 8.84% per annum, were issued by a wholly-owned subsidiary (the "Issuer") on 13th May 1997. This issue has no scheduled maturity but is redeemable at the option of the Company or the Issuer either (i) at any time on or after 13th May 2017 or (ii) at any time upon amendment or imposition of certain taxes and, in any case, becomes due in the event of the Company's or the Issuer's winding up. The perpetual capital securities are unconditionally and irrevocably guaranteed, on a subordinated basis, by the Company.

The perpetual capital securities are recorded in the statement of financial position at amortised cost. At 31st December 2009 the fair value was HK\$2,327 million (2008: HK\$1,907 million). The perpetual capital securities are listed on the Luxembourg Stock Exchange.

Bank Balances and Short-term Deposits

The Group had bank balances and short-term deposits of HK\$2,395 million at 31st December 2009, excluding security deposits, compared to HK\$4,239 million at 31st December 2008.

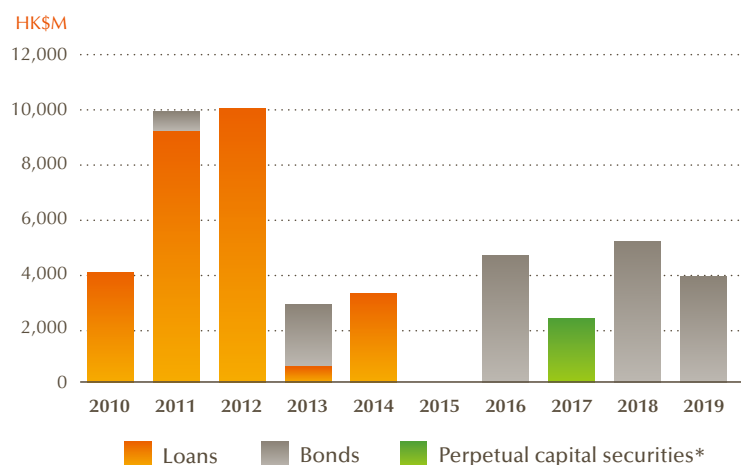
Maturity Profile and Refinancing

Bank loans and other borrowings are repayable on various dates up to 2019 (2008: up to 2018).

The Group's weighted average term and cost of debt is:

	2009	2008
Weighted average term of debt	4.3 years	4.5 years
Weighted average term of debt (excluding perpetuals)	4.1 years	4.3 years
Weighted average cost of debt	4.1%	4.8%
Weighted average cost of debt (excluding perpetuals)	3.8%	4.4%

Total Available Committed Facilities by Maturity – at 31st December 2009



* The perpetual capital securities have no fixed maturity date. In the above graph their maturity has been presented as their first call date, 13th May 2017.

The maturity of long-term loans and bonds is as follows:

Audited Financial Information			2009 HK\$M	2008 HK\$M
Bank loans (secured):				
Repayable within one year			169	169
Repayable between one and two years			169	169
Repayable between two and five years			42	211
Bank loans (unsecured):				
Repayable within one year			1,300	899
Repayable between one and two years			5,290	1,798
Repayable between two and five years			7,445	14,706
Other borrowings (unsecured):				
Repayable within one year			–	600
Repayable between one and two years			725	–
Repayable between two and five years			2,297	2,521
Repayable after five years			13,656	9,791
			31,093	30,864
Amount due within one year included under current liabilities			(1,469)	(1,668)
			29,624	29,196

Currency Profile

An analysis of the carrying amounts of gross borrowings by currency (after cross-currency swaps) is shown below:

Audited Financial Information				
	2009		2008	
	HK\$M	%	HK\$M	%
Currency				
Hong Kong dollar	28,983	84%	29,633	84%
United States dollar	1,238	3%	1,385	4%
Renminbi	4,107	12%	3,631	10%
New Taiwan dollar	111	1%	600	2%
Others	63	–	23	–
Total	34,502	100%	35,272	100%

Finance Charges

At 31st December 2009, 68% of the Group's gross borrowings were on a fixed rate basis and 32% were on a floating rate basis (2008: 57% and 43% respectively).

The exposure of the Group's loans and bonds to interest rate changes (after interest rate swaps) can be illustrated as follows:

Audited Financial Information					
	Floating interest rate HK\$M	Fixed interest rate maturing in:			Total HK\$M
		1 year or less HK\$M	1 to 5 years HK\$M	Over 5 years HK\$M	
At 31st December 2009	10,953	169	7,397	13,657	32,176
At 31st December 2008	15,027	769	7,360	9,791	32,947

Interest charged and earned during the year was as follows:

Audited Financial Information					
	2009		2008		
	HK\$M	HK\$M	HK\$M	HK\$M	
Interest charged on:					
Bank loans and overdrafts		(340)			(679)
Other loans and bonds:					
Wholly repayable within five years	(144)		(131)		
Not wholly repayable within five years	(846)		(662)		
		(990)			(793)
Fair value (losses)/gains on derivative instruments:					
Interest rate swaps: cash flow hedges, transferred from other comprehensive income	(20)		32		
Interest rate swaps: fair value hedges	15		27		
Interest rate swaps: not qualifying as hedges	–		(5)		
		(5)			54
Adjustments to financial liabilities – fair value hedges		–			(26)
Amortised loan fees – loans at amortised cost		(26)			(18)
Other financing costs		(45)			(57)
Deferred into properties under development for sale		32			10
Capitalised on:					
Investment properties	190		80		
Hotel properties	43		299		
Vessels	5		45		
		238			424
		(1,136)			(1,085)
Interest income on:					
Short-term deposits and bank balances	11		83		
Other loans	78		90		
Fair value gain on put option over minority interest in existing subsidiary company	107		–		
		196			173
Net finance charges		(940)			(912)

The capitalised interest rates used on funds both borrowed generally and used for the development of investment properties and properties for sale were between 3.38% and 5.15% per annum (2008: 3.91% and 8.32% per annum).

The total interest charged on borrowings held at amortised cost (after interest rate swaps) was HK\$1,335 million (2008: HK\$1,444 million).

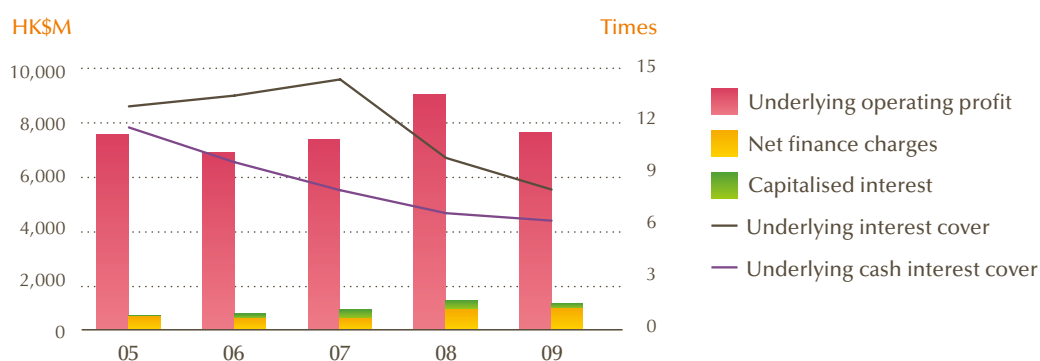
The interest rates per annum, before swaps, at the year-end date were as follows:

Audited Financial Information	2009				2008			
	HK\$ %	US\$ %	RMB %	Others %	HK\$ %	US\$ %	RMB %	Others %
Bank overdrafts and short-term loans	–	–	3.11-6.11	0.90	–	2.19	5.04-7.97	1.33-1.86
Long-term loans and bonds	0.22-5.05	2.55-6.25	4.86-5.94	1.41	2.39-5.05	3.83-6.25	8.32	3.24
Perpetual capital securities	–	8.84	–	–	–	8.84	–	–

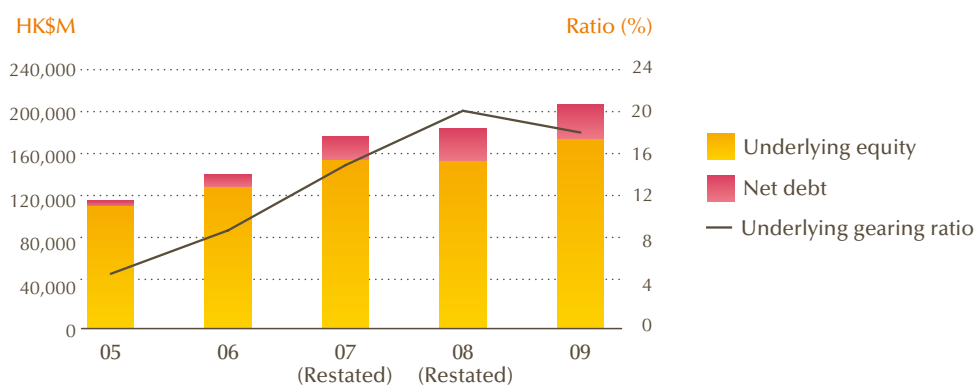
Interest Cover and Gearing Ratios

The following graphs illustrate the underlying interest cover and the underlying gearing ratios for each of the last five years:

Underlying Interest Cover



Underlying Gearing Ratio



Note:

The calculation of underlying equity is shown in the Financial Review on page 56.

	2009	2008 (Restated)
Gearing ratio*		
Per accounts	20.7%	22.4%
Underlying	18.2%	19.9%
Interest cover – times*		
Per accounts	23.1	10.0
Underlying	8.0	9.9
Cash interest cover – times*		
Per accounts	18.0	6.8
Underlying	6.3	6.7

* Refer to Glossary on page 192 for definition.

Covenants and Credit Triggers

Audited Financial Information

There are no specific covenants given by the Group for its debt facilities which would require debt repayment or termination of a facility should its credit rating be revised by the credit rating agencies.

The Company has entered into financial covenants in respect of gearing limits and maintenance of minimum consolidated net worth, to secure funding for itself and its subsidiaries. These covenants are set out below:

	Covenant limits	2009	2008 (Restated)
Gearing			
Consolidated borrowed money*/adjusted consolidated net worth*	≤ 200%	20.7%	22.4%
Secured consolidated borrowed money/adjusted consolidated net worth	≤ 100%	0.2%	0.4%
	HK\$M	HK\$M	HK\$M
Maintenance of minimum adjusted consolidated tangible net worth			
Adjusted consolidated tangible net worth*	≥ 20,000	152,478	135,321

* Refer to Glossary on page 192 for definition.

These financial covenants, together with the long-term credit rating objective establish the framework within which the capital structure of the Group is determined.

To date, none of the covenants has been breached.

Capital Management

Audited Financial Information

The Group's primary objectives when managing capital are to safeguard the Group's ability to operate as a going concern, so that it can continue to provide returns for shareholders and benefits to other stakeholders, and to secure access to finance at a reasonable cost.

The Group considers a number of factors in monitoring its capital structure, which principally include the gearing ratio, cash interest cover and the return cycle of its various investments. For the purpose of the gearing ratio, the Group defines net debt as total borrowings (comprising

borrowings net of security deposits plus perpetual capital securities issued by the Group) less short-term deposits and bank balances and certain available-for-sale investments. Capital comprises total equity, as shown in the consolidated statement of financial position.

In order to maintain or adjust the gearing ratio, the Group may adjust the amount of dividends paid to shareholders, issue or repurchase shares, raise new debt financing or sell assets to reduce debt. The gearing ratios at 31st December 2009 and 31st December 2008 were as follows:

	2009 HK\$M	2008 HK\$M (Restated)
Perpetual capital securities	2,326	2,325
Borrowings net of security deposits	31,796	32,398
Total borrowings	34,122	34,723
Less:		
Short-term deposits and bank balances (excluding security deposits)	(2,395)	(4,239)
Certain available-for-sale investments	(46)	(38)
	(2,441)	(4,277)
Net debt	31,681	30,446
Total equity	153,349	136,188
Gearing ratio	20.7%	22.4%

The reduction in the gearing ratio during 2009 principally reflects the net investment property valuation gain at 31st December 2009 which more than offset the increase in net debt.

Key Credit Ratios

The table below sets out those credit ratios of the Group which credit agencies commonly assess when determining credit ratings:

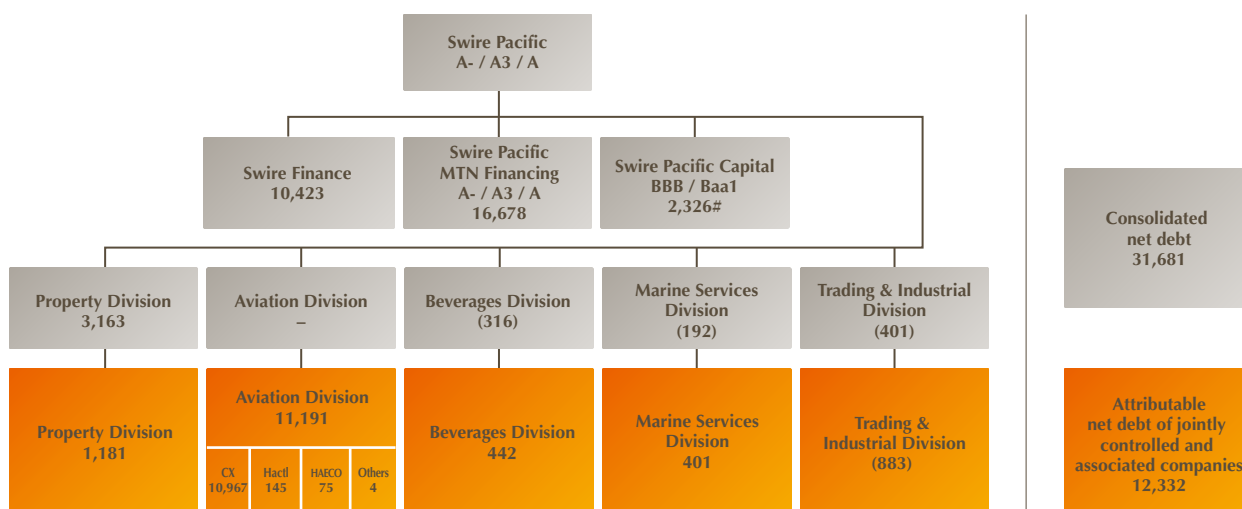
	Note	2005	2006	2007 (Restated)	2008 (Restated)	2009
Operating margin	1, 5					
– per accounts		107.7%	126.2%	126.7%	40.4%	90.9%
– underlying		42.3%	38.6%	37.1%	39.7%	34.0%
EBIT/net interest expenses	2, 4, 5					
– per accounts		34.2	36.8	31.5	8.2	18.7
– underlying		15.0	13.1	10.2	8.1	7.0
FFO + net finance charges/net interest expenses	3, 4, 5					
– per accounts		16.0	12.5	10.0	8.2	7.2
– underlying		14.7	12.5	10.0	8.2	7.2
FFO/net debt	3, 5					
– per accounts		177.9%	69.5%	38.3%	33.2%	24.4%
– underlying		162.3%	69.5%	38.3%	33.2%	24.6%
Net debt/total equity plus net debt	5					
– per accounts		5.1%	9.4%	14.2%	18.3%	17.1%
– underlying		4.6%	8.5%	12.8%	16.6%	15.4%
Property rental income/net interest expenses	4	5.2	5.4	5.0	4.1	5.0

Notes:

- 1 Operating margin = Operating profit before depreciation and amortisation/turnover.
- 2 EBIT = Operating profit plus dividends received from jointly controlled and associated companies.
- 3 FFO (Funds from operations) = Operating profit (including profit or loss on sale of investment properties and property, plant and equipment) less net finance charges less change in fair value of investment properties less tax paid plus depreciation and amortisation plus dividends from jointly controlled companies and associated companies plus non-cash items.
- 4 Net interest expenses include capitalised interest.
- 5 Underlying credit ratios are calculated by adjusting for the impact of HKAS 40 and HKAS-Int 21 on investment properties and deferred tax.

Attributable Net Debt

The chart below illustrates, by entity, the Group's attributable net debt and undertakings given to third parties (in HK\$M):



Represents US\$300 million perpetual capital securities.

Debt in Jointly Controlled and Associated Companies

In accordance with Hong Kong Financial Reporting Standards, the net debt of Swire Pacific reported in the consolidated statement of financial position does not include the net debt of its jointly controlled and associated companies. These companies had the following net debt positions at the end of 2009 and 2008:

	Total net debt/(cash) of jointly controlled and associated companies		Portion of net debt/(cash) attributable to the Group		Debt guaranteed by Swire Pacific or its subsidiaries	
	2009 HK\$M	2008 HK\$M	2009 HK\$M	2008 HK\$M	2009 HK\$M	2008 HK\$M
Property Division	4,123	4,406	1,181	1,241	486	491
Aviation Division						
Cathay Pacific group	26,131	25,198	10,967	10,074	–	–
HAECO group	143	(216)	75	(96)	–	–
Hactl	724	225	145	45	–	–
Other Aviation Division companies	7	14	4	7	–	–
Beverages Division	1,389	908	442	294	–	–
Marine Services Division	802	705	401	352	500	500
Trading & Industrial Division	(2,284)	(1,624)	(883)	(608)	–	–
	31,035	29,616	12,332	11,309	986	991

If the attributable portion of the net debt in jointly controlled and associated companies were to be added to the Group's net debt, gearing would rise to 29% and underlying gearing would rise to 25%.

Attributable Profit Correlation

Swire Pacific's attributable profits comprise earnings from a diverse range of businesses. An analysis of the degree of correlation between these earnings over the last ten years has been carried out. The correlation table below illustrates that most of the attributable profits received from different businesses are not strongly correlated. This demonstrates the relative stability of the earnings for the Group as a whole.

	Property Division	Aviation Division	Marine Services Division	Beverages and Trading & Industrial Divisions	Divisions combined, excluding Property Division
Underlying attributable profit 2009* (HK\$M)	3,966	1,821	1,637	1,103	4,561
Correlation coefficient:					
Property Division	1.000	-0.342	0.741	0.752	-0.030
Aviation Division	-0.342	1.000	-0.393	-0.089	0.920
Marine Services Division	0.741	-0.393	1.000	0.724	-0.014
Beverages and Trading & Industrial Divisions	0.752	-0.089	0.724	1.000	0.269
Divisions combined, excluding Property Division	-0.030	0.920	-0.014	0.269	1.000

* The underlying attributable profit has been adjusted to remove the impact of disposals of interests in subsidiary and jointly controlled companies.

Correlation key: 1 Highly correlated; 0 Uncorrelated; -1 Highly negatively correlated.